NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 General Information

The Company was incorporated in Bermuda on 11 April 2005. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal office is 23/F., The Toy House, 100 Canton Road, Tsimshatsui, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The ultimate holding company of the Company is Playmates Holdings Limited ("PHL"), which is incorporated in Bermuda. The immediate holding company of the Company is PIL Toys Limited, a company incorporated in the British Virgin Islands.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 15 to the financial statements.

The financial statements for the year ended 31 December 2017 were approved for issue by the board of directors on 5 March 2018.

2 Summary of Significant Accounting Policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The significant accounting policies that have been used in preparation of the financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 3 to the financial statements.

The financial statements have been prepared under the historical cost basis, except for financial assets at fair value through profit or loss which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on the Group's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.6 "Inventories", note 2.10 "Provisions", note 2.13 "Advertising and marketing expenses, advanced royalties and product development costs", note 2.17 "Deferred taxation" and note 2.18 "Current taxation" to the financial statements. Other than that, no significant accounting estimations and judgments have been made.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (together referred to as the “Group”) made up to 31 December each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group’s perspective.

2.3 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

In the Company’s statement of financial position, subsidiaries are recorded at cost less any impairment losses unless the subsidiary is held for sale or included in a disposal group. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the end of the reporting period. All dividends whether received out of the investee’s pre or post-acquisition profits are recognised in the Company’s profit or loss.

2.4 Associated companies

An associated company is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

In the consolidated financial statements, an investment in an associated company is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group’s interest in the associated company is carried at cost and adjusted for the post-acquisition changes in the Group’s share of the associated company’s net assets less any identified impairment loss, unless it is classified as held for sale. The profit or loss for the period includes the Group’s share of the post-acquisition, post-tax results of the associated company for the year, including any impairment loss on the investment in the associated company recognised for the year.

When the Group’s share of losses in an associated company equals or exceeds its interest in the associated company, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associated company.

2 Summary of Significant Accounting Policies (Continued)

2.4 Associated companies (Continued)

Unrealised gains on transactions between the Group and its associated company are eliminated to the extent of the Group's interest in the associated company. Where unrealised losses on asset sales between the Group and its associated company are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associated company. At the end of each reporting period, the Group determines whether there is any objective evidence that the investment in associated company is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs of disposal) of the associated company and its carrying amount.

2.5 Property, plant and equipment

All property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Gains or losses arising from the retirement or disposal are determined as the difference between the sales proceeds and the carrying amount of the asset and recognised in profit or loss.

Depreciation is calculated using the straight-line method to write off cost less the residual values over the estimated useful lives, as follows:

Leasehold improvements	3-10 years
Vehicle, equipment, furniture and fixtures	3-10 years
Computers	3-5 years

The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.6 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business less applicable selling expenses.

The Group reviews the condition of inventories at the end of each reporting period, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable. The Group carries out the inventory review on product-by-product basis and makes allowances by reference to the latest market prices and current market conditions.

2.7 Financial assets

Financial assets are recognised when, and only when, the Group becomes a party to contractual provisions of the instrument.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment losses and allowance for customer concession.

Trade and other receivables are derecognised when the rights to receive cash flows from the assets expire or are transferred and substantially all the risks and rewards of ownership have been transferred.

At the end of each reporting period, trade and other receivables are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- It becomes probable that the debtor will enter bankruptcy or other financial reorganisation.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

2 Summary of Significant Accounting Policies (Continued)

2.7 Financial assets (Continued)

Trade and other receivables (Continued)

If any such objective evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Impairment losses on financial assets other than trade receivables that are stated at amortised cost, are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Financial assets at fair value through profit or loss

The Group classifies its investments as financial assets at fair value through profit or loss. The Group determines the classification of investments at initial recognition. The classification depends on the purpose for which the investments were acquired and where allowed and appropriate, re-evaluates this designation at the end of each reporting period.

A financial asset is classified as financial assets at fair value through profit or loss if acquired principally for the purpose of selling in the short term or if so designated by the Group, which these financial assets are managed according to internal policies and the performance is evaluated periodically on a fair value basis. Assets in this category are classified as current assets.

All financial assets are recognised when and only when the Group becomes a contractual party of the investment. Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value, and in the case of financial assets not carried at fair value through profit or loss, plus directly attributable transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are recognised in profit or loss in the period in which they arise. The fair values of quoted investments are based on current bid prices and unlisted managed funds are carried at the fair value of the managed fund's assets as at the end of the reporting period. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in note 2.12 to these financial statements.

2.8 Impairment of non-financial assets

Property, plant and equipment, interest in subsidiaries and an associated company are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

2.9 Financial liabilities

The Group's financial liabilities include trade and other payables and loan from an associated company. They are recognised when the Group becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Trade and other payables and loan from an associated company are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method.

2 Summary of Significant Accounting Policies (Continued)

2.10 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. All provisions are current in nature and therefore the effect of the time value of money is not material.

(i) Consumer returns

The Group uses agreed customer allowances based on a percentage of sales and information on actual consumer returns of goods to estimate return percentages. The provision is calculated based on these factors and is adjusted for any fluctuations in the returns expected by management as of each period end.

A portion of the Group's retail customers receive a fixed percentage of sales as their allowance. The allowance for each retail customer is agreed and documented in the terms of trade. Certain customers receive an allowance based on their actual consumer return experience.

In evaluating the adequacy of the prior year provision, the Group prepares an analysis to determine the reasons for unclaimed deductions. If the analysis determines that some carry forward provision amounts were no longer appropriate based on actual claims experience, the proper adjustments will be made to release the over-accrued portion.

(ii) Cooperative advertising

The Group participates in customer advertising programmes which are negotiated on an individual basis. In addition, the Group contributes toward specific expenses of the customers for in-store sales promotions and advertising circulars.

In the case of fixed percentage, the amounts are negotiated and documented in the terms of trade with the respective customer. In the case of all special programs, the program application, limits and amounts are offered on a case by case basis by the Group. Some of the programs are set for defined periods of time or limited to a maximum number of units sold, and confirming data is provided by the retailer to finalise the actual program cost.

Claims for cooperative advertising may be received up to two years after the relevant reporting period end and, in certain cases, later. The Group reviews the provisions periodically and any unrequired amount will be reversed when determined.

(iii) Cancellation charges

The provision represents the estimated amounts that would be payable to suppliers to settle the cost incurred by them for production orders which have been or are likely to be cancelled. The Group generally settles these amounts in the year after the year that specific product ceases to be actively sold to customers.

In most cases, the vendor may try to mitigate the Group's exposure by utilising the unused components in its other products. Such arrangement may also reduce the Group's potential cancellation exposure.

At each relevant reporting period end, the Group will analyse the potential cancellation charge exposure for order cancellations due to commitments for finished goods, work in process items and material authorisations. The Group will also review if any items can be carried over to be produced and sold in the subsequent year. Once any adjustment is made, the remaining exposure is adjusted by a factor representing the historical negotiated discount agreed with the suppliers.

All provisions are established for specific exposures.

Management relies on available contemporary and historical information to evaluate each potential exposure and exercises its best judgement to estimate the amount of provision necessary and sufficient for each potential exposure.

Over- or under-provision for the above exposures, arising from subsequent events and the eventual settlement, are adjusted in that subsequent period where appropriate.

2.11 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

Where any company of the Group repurchases the Company's equity share capital, the consideration paid, including any attributable costs, is deducted from equity attributable to the Company's owners until the shares are cancelled or reissued.

2.12 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and the use by others of the Group's assets yielding interest, net of discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of toys are recognised upon the transfer of the significant risks and rewards of ownership to customers, which generally coincides with the time when the goods are delivered to the customers and title has been passed.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time-proportion basis, by reference to the principal outstanding and at the interest rate applicable.

2 Summary of Significant Accounting Policies (Continued)

2.13 Advertising and marketing expenses, advanced royalties and product development costs

2.13.1 Advertising and marketing expenses are expensed as incurred.

2.13.2 Advanced royalties represent prepayments made to licensors of intellectual properties under licensing agreements which are recoupable against future royalties. Advanced royalties are amortised at the contractual royalty rate based on actual product sales. Management evaluates the future realisation of advanced royalties periodically and charges to expense any amounts that management deems unlikely to be recoupable at the contractual royalty rate through product sales. All advanced royalties are amortised within the term of the license agreement and are written off upon the abandonment of the product or upon the determination that there is significant doubt as to the success of the product.

2.13.3 Product development costs are recognised as intangible assets when the following criteria are met:

(i) demonstration of technical feasibility of completing the product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

All other product development costs are charged to profit or loss as incurred.

2.14 Operating leases

Operating leases are leases where substantially all the rewards and risks of ownership of assets remain with the lessors. Related rental payments are charged to profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

2.15 Employee benefits

2.15.1 Employee leave entitlements

Employees' entitlements to leave are recognised when they accrue to employees. A provision is made for the estimated liability for leave entitlements as a result of services rendered by employees up to the end of the reporting period.

2.15.2 Pension obligations

The Group operates defined contribution provident fund schemes for its employees, the assets of which are held separately from those of the Group in independently administered funds. The Group's contributions under the schemes are charged to profit or loss as incurred. The amount of the Group's contributions is based on specified percentages of the basic salaries of employees. Any contributions forfeited from employees who leave the Group, relating to unvested benefits, are used to reduce the Group's ongoing contributions otherwise payable.

2.15.3 Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in the share-based compensation reserve within equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). At the end of each reporting period, the Group revises the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in profit or loss, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the share-based compensation reserve until the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.16 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 Summary of Significant Accounting Policies (Continued)

2.17 Deferred taxation

Deferred tax is calculated using the liability method on temporary differences at the end of the reporting period between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in subsidiaries and associated company, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the end of the reporting period.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

    (i) the same taxable entity; or

    (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.18 Current taxation

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense/credit in profit or loss.

Current tax assets and current tax liabilities are presented in net if, and only if,

(i) the Group has the legally enforceable right to set off the recognised amounts; and

(ii) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group is subject to income taxes in certain jurisdictions other than Hong Kong. The Group engages tax professionals to calculate provisions for income taxes. Judgment is required in such calculations. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period which such determination is made.

2.19 Foreign currency translation

The financial statements are presented in Hong Kong dollar (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting period end retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollar. Assets and liabilities have been translated into Hong Kong dollar at the closing rates at the end of the reporting period. Income and expenses have been converted into the Hong Kong dollar at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the exchange reserve in equity.

When a foreign operation is sold or closed, all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified from equity to profit or loss as part of the gain or loss.

2 Summary of Significant Accounting Policies (Continued)

2.20 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2.21 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the Group's senior executive management for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. Based on the internal reports reviewed by the senior executive management of the Group that are used to make strategic decision, the only operating segment of the Group is design, development, marketing and distribution of toys and family entertainment activity products. No separate analysis of the reportable segment profit/loss before income tax, reportable segment assets and reportable segment liabilities by operating segment are presented.

2.22 Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family or a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 Adoption of New or Amended HKFRSs

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The following new standards, amendments and interpretations which have been issued by the HKICPA as of 31 December 2017 may be relevant to the Group in future years but are not yet effective for the year ended 31 December 2017:

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these new standards, amendments and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have impact on the consolidated financial statements. Details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018.

3 Adoption of New or Amended HKFRSs (Continued)

Save as discussed below, all other new standards, amendments or interpretations issued but not effective are not likely to have significant impact on the consolidated financial statements.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise transition adjustments (if any) against the opening balance of equity at 1 January 2018. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income ("FVTOCI"):

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9. The Group does not have any financial assets classified as FVTOCI.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement on financial liabilities will not have any impact on the Group.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model may result in earlier recognition of credit losses. Based on preliminary assessment, if the Group were to adopt the new impairment requirements at 31 December 2017, accumulated impairment loss would increase by approximately HK$26,000 as compared to the current requirement under HKAS 39.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs. The Group has assessed that the new revenue standard does not have any impact on the timing it recognises revenue.

3 Adoption of New or Amended HKFRSs (Continued)

HKFRS 16, Leases

As disclosed in note 2.14, the Group enters into leases as lessee. HKFRS 16 introduces that in lessee accounting it will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for offices which are currently classified as operating leases. The application of this new lease standard is expected to lead to an increase in both assets and liabilities on the consolidated financial position and to impact on the timing of the expense recognition in the consolidated income statement over the period of the lease. As disclosed in note 28.2, at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$19,389,000 for rental of offices. These amounts may need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted.

The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

4 Revenue

The Group is principally engaged in the design, development, marketing and distribution of toys and family entertainment activity products. Turnover of the Group is the revenue from these activities.

Revenue recognised during the year ended 31 December 2017 from sales of toys was HK$758,329,000 (2016: HK$992,933,000).

5 Segment Information

5.1 Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue and (ii) the Group's property, plant and equipment, and interest in an associated company ("specified non-current assets"). The geographical location of revenue is based on the country in which the customer is located. The geographical location of the specified non-current assets is based on the physical location of the assets in case of property, plant and equipment, and the location of operation in case of interest in an associated company.

	Revenue		Specified non-current assets	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**815**	316	**14,110**	7,473
Americas				
– U.S.A.	**495,680**	744,222	**2,609**	3,733
– Others	**49,206**	43,740	**–**	–
Europe	**163,586**	143,618	**–**	–
Asia Pacific other than Hong Kong	**43,795**	54,525	**–**	–
Others	**5,247**	6,512	**–**	–
	757,514	992,617	**2,609**	3,733
	758,329	992,933	**16,719**	11,206

5.2 Major customers

The Group's customer base includes four (2016: four) customers with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these customers amounted to approximately HK$186,022,000, HK$126,885,000, HK$114,339,000 and HK$107,504,000 (2016: HK$362,691,000, HK$153,844,000, HK$119,286,000 and HK$104,985,000) respectively.

6 Profit before Income Tax

Profit before income tax is stated after charging/(crediting) the following:

	2017 **HK$'000**	2016 HK$'000
Cost of inventories sold	**298,353**	354,069
Reversal of write-down of inventories	**–**	(181)
Write-down of inventories	**184**	–
Product development costs	**8,248**	11,752
Royalties expense	**113,889**	136,328
Provision for consumer returns, cooperative advertising and cancellation charges *(Note 23)*	**21,211**	48,064
Reversal of unutilised provision for consumer returns, cooperative advertising and cancellation charges *(Note 23)*	**(1,274)**	(1,662)
Depreciation of property, plant and equipment *(Note 14)*	**5,320**	2,114
Directors' and staff remunerations *(Note 12)*	**75,984**	79,791
Allowance for impairment of trade receivables *(Note 18)*	**–**	643
Allowance for customer concession	**13,598**	1,395
Operating leases expense on office	**8,391**	8,150
Net foreign exchange gain	**(5,721)**	(174)
Loss on disposal of property, plant and equipment	**–**	59
Auditors' remuneration	**1,200**	1,230

7 Other Net Income

	2017 **HK$'000**	2016 HK$'000
Interest income	**10,572**	3,773
Dividend income	**236**	485
Net gain on financial assets at fair value through profit or loss	**4,424**	3,771
Others	**5,031**	(1,964)
	20,263	6,065

8 Finance Costs

	2017 **HK$'000**	2016 HK$'000
Bank charges	**5,735**	5,199

9 Income Tax Expense

9.1 Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the year. Overseas taxation of overseas subsidiaries is provided in accordance with the applicable tax laws.

	2017	2016
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**6,372**	9,093
Overseas taxation	**26,305**	48,123
Under provision in prior years – overseas	**–**	1,994
Over provision in prior years – Hong Kong	**–**	(48)
	32,677	59,162
Deferred taxation		
Origination and reversal of temporary differences	**(6,782)**	6,754
Impact of change in US tax rate *(Note)*	**6,867**	–
	85	6,754
Income tax expense	**32,762**	65,916

9.2 Reconciliation between tax expense and accounting profit at applicable tax rates:

	2017	2016
	HK$'000	*HK$'000*
Profit before income tax	**88,526**	176,122
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**27,380**	63,707
Tax effect of:		
Non-taxable income	**(1,939)**	(1,020)
Non-deductible expenses	**281**	941
Unrecognised tax losses	**173**	318
Utilisation of previously unrecognised tax losses	**–**	(4)
Recognition of previously unrecognised temporary differences	**–**	28
Remeasurement of deferred tax due to change in US tax rate *(Note)*	**6,867**	–
Under provision in prior years	**–**	1,946
Income tax expense	**32,762**	65,916

Note:

This amount related to the impact of U.S. tax legislation that was passed into law on 22 December 2017 ("US Tax Reform"), which lowered the U.S. federal tax rate for corporation from 35% to 21% effective from 1 January 2018.

10 Dividends

10.1 Dividends attributable to the year

	2017 HK$'000	2016 HK$'000
First interim dividend of HK cents 3 (2016: HK cents 5) per share	**36,014**	60,767
Second interim dividend of HK cents 3 (2016: HK cents 5) per share	**35,850**	60,505
	71,864	121,272

At a meeting held on 25 August 2017, the board of directors declared a first interim dividend of HK cents 3 per share, which was paid on 29 September 2017.

At a meeting held on 5 March 2018, the board of directors declared a second interim dividend of HK cents 3 per share to be paid on 11 April 2018 to shareholders whose names appear on the Company's register of members on 22 March 2018. This second interim dividend declared after the end of the reporting period have not been recognised as liabilities in the financial statements for the year ended 31 December 2017.

10.2 Dividends attributable to the previous financial year and paid during the year

	2017 HK$'000	2016 HK$'000
Dividends in respect of the previous financial year and paid during the year:		
Second interim dividend of HK cents 5 (2016: HK cents 5) per share	**60,535**	60,505

11 Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$55,764,000 (2016: HK$110,206,000) and the weighted average number of ordinary shares of 1,204,424,000 shares (2016: 1,212,756,000 shares) in issue during the year.

The calculation of diluted earnings per share is based on the profit attributable to owners of the Company of HK$55,764,000 (2016: HK$110,206,000) and the weighted average number of ordinary shares of 1,210,579,000 shares (2016: 1,221,680,000 shares) in issue during the year, adjusted for the effects of 6,155,000 (2016: 8,924,000) dilutive potential shares on exercise of share options.

12 Directors' and Staff Remunerations

	2017 HK$'000	2016 HK$'000
Wages, salaries and other benefits	**73,780**	77,247
Share-based compensation	**–**	417
Employer's contributions to provident fund	**2,204**	2,127
	75,984	79,791

13 Directors' Remuneration and Senior Management's Emoluments

13.1 Directors' emoluments

The emoluments of each director disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are set out below:

Name of director	Fee 2017 HK$'000	Salary 2017 HK$'000	Bonus 2017 HK$'000	Share-based compensation 2017 HK$'000	Other benefits 2017 HK$'000 (Note)	Total 2017 HK$'000
CHAN Chun Hoo, Thomas (retired on 18 May 2017)	4	2,757	–	–	44	2,805
CHAN Kong Keung, Stephen (appointed on 18 May 2017)	6	594	–	–	5	605
CHENG Bing Kin, Alain	10	1,176	–	–	7	1,193
CHOW Yu Chun, Alexander	330	–	–	–	–	330
LEE Ching Kwok, Rin	330	–	–	–	–	330
TO Shu Sing, Sidney	10	1,798	–	–	55	1,863
YANG, Victor	330	–	–	–	–	330
	1,020	6,325	–	–	111	7,456

Name of director	Fee 2016 HK$'000	Salary 2016 HK$'000	Bonus 2016 HK$'000	Share-based compensation 2016 HK$'000	Other benefits 2016 HK$'000 (Note)	Total 2016 HK$'000
CHAN Chun Hoo, Thomas	10	4,059	4,380	–	109	8,558
CHENG Bing Kin, Alain	10	1,170	98	36	7	1,321
CHOW Yu Chun, Alexander	330	–	–	14	–	344
LEE Ching Kwok, Rin	330	–	–	14	–	344
TO Shu Sing, Sidney	10	1,206	101	36	14	1,367
YANG, Victor	330	–	–	14	–	344
	1,020	6,435	4,579	114	130	12,278

None of the directors have waived the right to receive their emoluments for the years ended 31 December 2017 and 2016.

Note: Other benefits include medical allowance and car allowance.

13 Directors' Remuneration and Senior Management's Emoluments (Continued)

13.2 Five highest paid individuals

One (2016: one) of the five highest paid individuals is a director, whose emoluments are disclosed above. Details of the emoluments of the other four (2016: four) highest paid individuals are as follows:

	2017	2016
	HK$'000	*HK$'000*
Salaries, other allowances and benefits in kind	**8,094**	7,752
Bonuses	**1,054**	2,205
Share-based compensation	**–**	68
Employer's contributions to provident fund	**394**	380
	9,542	10,405

The emoluments of these four (2016: four) individuals are within the following bands:

	Number of individuals	
	2017	2016
HK$		
2,000,001 – 2,500,000	**3**	3
3,000,001 – 3,500,000	**1**	–
3,500,001 – 4,000,000	**–**	1
	4	4

14 Property, Plant and Equipment

	Leasehold improvements HK$'000	Vehicle, equipment, furniture and fixtures HK$'000	Computers HK$'000	Total HK$'000
Cost				
At 1 January 2017	**1,451**	**3,417**	**25,938**	**30,806**
Exchange fluctuation	**7**	**13**	**158**	**178**
Additions	**8,365**	**1,597**	**981**	**10,943**
Disposals	**–**	**(934)**	**(18,201)**	**(19,135)**
At 31 December 2017	**9,823**	**4,093**	**8,876**	**22,792**
Accumulated depreciation				
At 1 January 2017	**1,102**	**2,498**	**22,053**	**25,653**
Exchange fluctuation	**6**	**11**	**138**	**155**
Charge for the year	**2,888**	**611**	**1,821**	**5,320**
Disposals	**–**	**(934)**	**(18,201)**	**(19,135)**
At 31 December 2017	**3,996**	**2,186**	**5,811**	**11,993**
Net book value				
At 31 December 2017	**5,827**	**1,907**	**3,065**	**10,799**
Cost				
At 1 January 2016	1,340	3,528	25,757	30,625
Additions	332	100	653	1,085
Disposals	(221)	(211)	(472)	(904)
At 31 December 2016	1,451	3,417	25,938	30,806
Accumulated depreciation				
At 1 January 2016	1,067	2,125	21,192	24,384
Charge for the year	244	546	1,324	2,114
Disposals	(209)	(173)	(463)	(845)
At 31 December 2016	1,102	2,498	22,053	25,653
Net book value				
At 31 December 2016	349	919	3,885	5,153

15 Interest in Subsidiaries

Details of the principal subsidiaries of the Company as at 31 December 2017 are as follows:

Name of company	Place of incorporation	Total issued and fully paid shares	Effective percentage holding	Principal activities, place of operation
Shares held indirectly:				
Playmates International Company Limited	Hong Kong	1 ordinary share	100%	Toy development, marketing and distribution, and related investment activities, Hong Kong
Playmates Toys Inc.	U.S.A.	305,000 common stocks of US$30 each	100%	Toy marketing and distribution, U.S.A.
Team Green Innovation Inc.	U.S.A.	10 common stocks of US$0.01 each	100%	Product design and development services, U.S.A.

The above table includes subsidiaries of the Company which principally affected the results for the year or formed a substantial portion of the net assets of the Group.

16 Interest in an Associated Company

	2017 **HK$'000**	2016 *HK$'000*
Cost of investment	**18,077**	18,077
Share of post-acquisition loss, other comprehensive income, net of dividends received	**(12,157)**	(12,024)
	5,920	6,053

As at 31 December 2017, the Group held interests in the following associated company:

Name of company	Place of incorporation	Particulars of issued shares	Effective percentage holding
Unimax Holdings Limited ("Unimax")	The British Virgin Islands	200 ordinary shares of US$1 each	49%

The associated company is held indirectly by the Company and operates in Hong Kong. It is an unlisted corporate entity whose market value is not readily available and is accounted for using the equity method in the consolidated financial statements.

Unimax is an investment holding company whose subsidiaries are principally engaged in the design and marketing of pre-school toys, dolls and die cast models, and which was a strategic investment of the Group at the time of initial investment in 1992.

During the year, a major subsidiary of Unimax was dissolved in Hong Kong on 4 December 2017.

Summarised financial information of the associated company and its subsidiaries is disclosed below:

	2017 *HK$'000*	2016 *HK$'000*
Gross amounts of the associated company		
Non-current assets	–	–
Current assets	12,082	12,364
Current liabilities	–	(10)
Non-current liabilities	–	–
Equity	12,082	12,354
Group's effective interest	49%	49%
Group's share of net assets of the associated company and carrying amount in the consolidated financial statements	5,920	6,053
Revenue	–	–
Loss for the year and total comprehensive income	(272)	–
Dividend from the associated company	–	–

17 Inventories

As at 31 December 2017, the carrying amount of inventories after write down amounted to HK$22,728,000 (2016: HK$15,236,000) and the carrying amount of inventories that are carried at net realisable value amounted to HK$1,390,000 (2016: HK$312,000).

18 Trade Receivables

	2017 HK$'000	2016 HK$'000
Trade receivables	**187,261**	180,469
Less: Allowance for impairment *(Note 18.2)*	**(2,664)**	(2,647)
Less: Allowance for customer concession	**(15,218)**	(2,981)
	169,379	174,841

The Group grants credits to retail customers to facilitate the sale of slow moving merchandise held by such customers. Such allowance for customer concession is arrived at by using available contemporary and historical information to evaluate the exposure.

18.1 Aging analysis

The normal trade terms with customers are letters of credit at sight or usance or on open accounts with credit term in the range of 60 to 90 days. The following is an aging analysis of trade receivables based on the invoice date at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
0 – 60 days	**125,151**	117,453
61 – 90 days	**34,080**	43,150
91 – 180 days	**2,408**	9,978
Over 180 days	**7,740**	4,260
	169,379	174,841

18.2 Impairment of trade receivables

The movement in the allowance for impairment during the year is as follows:

	2017 HK$'000	2016 HK$'000
At 1 January	**2,647**	2,004
Exchange fluctuation	**17**	–
Impairment loss recognised	**–**	643
At 31 December	**2,664**	2,647

At 31 December 2017, trade receivables of HK$2,664,000 (2016: HK$2,647,000) were individually determined to be impaired. The individually impaired receivables related to a customer that was in financial difficulties and the Group assessed that the probability of recovering such receivables is remote. Consequently, specific allowance for impairment of HK$2,664,000 (2016: HK$2,647,000) was recognised.

As disclosed in the Company's announcement dated 20 September 2017 ("Announcement"), Toys "R" Us, Inc. ("TRU"), one of the five largest customers of the Group, had filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Virginia in Richmond on 18 September 2017. No impairment was recognized on the pre-petition trade receivables as they were settled before 31 December 2017. The Group has insurance policy in place that mitigates the Group's exposure to TRU's post-petition trade receivables.

18.3 Trade receivables that are not impaired

The aging analysis of trade receivables that are not impaired is as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Neither past due nor impaired	**124,875**	125,290
1 – 90 days past due	**35,607**	43,517
91 – 180 days past due	**1,198**	1,020
Over 180 days past due	**7,699**	5,014
	44,504	49,551
	169,379	174,841

Receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to customers that have a good track record of credit with the Group. Based on past experience, no impairment allowance is considered necessary in respect of these balances as there has not been a significant change in credit quality and the balances are expected to be fully recoverable. The Group does not hold any collateral over these balances.

19 Financial Assets at Fair Value through Profit or Loss

	2017 HK$'000	2016 HK$'000
Listed equity investment in Hong Kong	3,338	–
Listed equity investment outside Hong Kong	15,257	23,195
	18,595	23,195

20 Trade Payables

The following is an aging analysis of trade payables based on the invoice date at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
0 – 30 days	20,984	12,373
31 – 60 days	2,645	3,092
Over 60 days	758	853
	24,387	16,318

21 Deposits Received, Other Payables and Accrued Charges

	2017 HK$'000	2016 HK$'000
Deposits from customers and distributors	64,658	55,234
Accrued product development, sales, marketing and distribution expenses	12,645	11,762
Accrued royalties	57,533	39,116
Accrued directors' and staff remunerations	9,528	17,563
Withholding tax payable	2,968	1,909
Accrued administrative expenses and professional fees	4,358	6,050
	151,690	131,634

22 Loan from an Associated Company

The loan from Unimax is unsecured, interest free and repayable on demand without a fixed repayment term.

23 Provisions

	Consumer returns HK$'000	Cooperative advertising HK$'000	Cancellation charges HK$'000	Total HK$'000
At 1 January 2017	**14,867**	**22,066**	**816**	**37,749**
Exchange fluctuation	**96**	**142**	**6**	**244**
Additional provisions made	**5,742**	**14,851**	**618**	**21,211**
Provisions utilised	**(5,086)**	**(10,650)**	**(37)**	**(15,773)**
Reversal of unutilised provisions	**(779)**	**(451)**	**(44)**	**(1,274)**
At 31 December 2017	**14,840**	**25,958**	**1,359**	**42,157**

24 Deferred Taxation

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rate of 16.5% (2016: 16.5%) in Hong Kong, and federal and state tax rates of 21% (2016: 35%) and 8.84% (2016: 8.84%) respectively in the U.S..

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Accelerated depreciation HK$'000	Other temporary differences HK$'000 (Note (a))	Employee benefits HK$'000 (Note (b))	Total HK$'000
At 1 January 2016	(964)	31,468	3,601	34,105
Charged to profit or loss	(178)	(5,543)	(1,033)	(6,754)
Credited directly to equity	–	–	486	486
At 31 December 2016 and 1 January 2017	**(1,142)**	**25,925**	**3,054**	**27,837**
Exchange fluctuation	**(6)**	**106**	**19**	**119**
Credited/(Charged) to profit or loss	**994**	**515**	**(1,594)**	**(85)**
At 31 December 2017	**(154)**	**26,546**	**1,479**	**27,871**

Notes:

(a) Other temporary differences mainly represent the provisions and unrealised profits on inventories.

(b) Employee benefits represents share-based compensation.

24 Deferred Taxation (Continued)

Deferred tax assets not recognised

The Group has not recognised tax losses of HK$16,737,000 (2016: HK$15,686,000). The tax losses do not expire under respective current tax legislation.

Deferred tax liabilities not recognised

As at 31 December 2017, temporary differences relating to the undistributed profits of certain subsidiaries of the Group amounted to HK$580,463,000 (2016: HK$553,945,000). Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of these retained profits.

25 Equity Settled Share-based Transactions

A Share Option Scheme of the Company ("Scheme") was adopted on 25 January 2008. A nominal consideration at HK$10 or US$1.5 was paid by each option holder for each lot of share option granted. Share options are exercisable in stages in accordance with the terms of the Scheme within ten years after the date of grant. All share-based compensation will be settled in equity. The number and weighted average exercise price of share options are as follows:

	2017		2016	
	Weighted average exercise price *HK$*	**Number of options** *'000*	Weighted average exercise price *HK$*	Number of options *'000*
At 1 January	**0.749**	**14,406**	0.760	20,367
Exercised *(Note)*	**0.885**	**(1,150)**	0.787	(5,948)
Lapsed	**0.613**	**(124)**	0.316	(13)
At 31 December	**0.738**	**13,132**	0.749	14,406
Exercisable at 31 December	**0.738**	**13,132**	0.749	14,406

Note:

These share options were exercised during the year ended 31 December 2017 at exercise prices ranging from HK$0.415 to HK$0.930 (2016: ranging from HK$0.315 to HK$0.930). The weighted average closing price of ordinary shares of the Company immediately before the dates on which the options were exercised during the year was HK$1.40 (2016: HK$1.64).

Subject to the waiver or variation by the board from time to time at its sole discretion, in general 25% of the shares options granted shall be vested each year commencing on the date of grant and exercisable until the expiration of the relevant option period. No share options were cancelled during the year.

The share options outstanding at 31 December 2017 had a weighted average remaining contractual life of 4.33 years (2016: 5.40 years).

In 2017, no share-based compensation expense has been included in the consolidated income statement. In 2016, HK$507,000 share-based compensation expense had been included in the consolidated income statement and the corresponding amount of which had been credited to share-based compensation reserve. No liabilities were recognised due to share-based payment transactions.

26 Equity – Group and Company

26.1 Share capital

	Authorised Ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 31 December 2017 and 2016	**3,000,000,000**	**30,000**

	Issued and fully paid Ordinary shares of HK$0.01 each	
	No. of shares	*HK$'000*
At 1 January 2016	1,210,000,000	12,100
Exercise of share options	5,948,000	59
Cancellation of repurchased shares	(1,552,000)	(15)
At 31 December 2016 and 1 January 2017	**1,214,396,000**	**12,144**
Exercise of share options	**1,150,000**	**12**
Cancellation of repurchased shares *(Note)*	**(19,776,000)**	**(198)**
At 31 December 2017	**1,195,770,000**	**11,958**

26 Equity – Group and Company (Continued)

26.1 Share capital (Continued)

Note:

During the year, the Company repurchased a total of 20,546,000 shares of the Company on the Stock Exchange as follows:

Month/year	Par value per share *HK$*	Number of shares repurchased	Highest price paid per share *HK$*	Lowest price paid per share *HK$*	Aggregate price paid *HK$'000*
January 2017	0.01	4,396,000	1.43	1.38	6,151
May 2017	0.01	3,892,000	1.28	1.18	4,849
June 2017	0.01	3,932,000	1.40	1.28	5,408
July 2017	0.01	2,876,000	1.40	1.39	4,023
September 2017	0.01	452,000	1.35	1.35	610
December 2017	0.01	4,998,000	1.19	1.08	5,542

Save and except the 770,000 shares repurchased in December 2017 which were cancelled in January 2018, all of the above repurchased shares were cancelled during the year. The issued share capital of the Company was accordingly diminished by the nominal value of these shares. The premium paid on repurchase was charged against either the share premium account or retained profits. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to capital redemption reserve.

26.2 Reserves

Company

	Share premium HK$'000	Share-based compensation reserve HK$'000	Share repurchase reserve HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2016	10,841	10,726	–	33	70,900	581,189	673,689
Profit for the year	–	–	–	–	–	3,664	3,664
Share option scheme							
– value of services	–	507	–	–	–	–	507
– share issued	7,897	(3,274)	–	–	–	–	4,623
Repurchase of shares of the Company	(1,845)	–	–	15	–	(15)	(1,845)
2015 second interim dividend paid	–	–	–	–	(60,505)	–	(60,505)
2016 first interim dividend paid	–	–	–	–	(10,395)	(50,372)	(60,767)
At 31 December 2016	16,893	7,959	–	48	–	534,466	559,366
At 1 January 2017	**16,893**	**7,959**	**–**	**48**	**–**	**534,466**	**559,366**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**64,385**	**64,385**
Share option scheme							
– shares issued	**1,712**	**(706)**	**–**	**–**	**–**	**–**	**1,006**
– share options lapsed	**–**	**(54)**	**–**	**–**	**–**	**54**	**–**
Repurchase of shares of the Company	**(18,605)**	**–**	**(907)**	**197**	**–**	**(7,070)**	**(26,385)**
2016 second interim dividend paid	**–**	**–**	**–**	**–**	**–**	**(60,535)**	**(60,535)**
2017 first interim dividend paid	**–**	**–**	**–**	**–**	**–**	**(36,014)**	**(36,014)**
At 31 December 2017	**–**	**7,199**	**(907)**	**245**	**–**	**495,286**	**501,823**

The application of the share premium account, the capital redemption reserve account and the contributed surplus account is governed by the Companies Act 1981 of Bermuda.

26 Equity – Group and Company (Continued)

26.3 Capital management

The Group's capital management is primarily to provide a reasonable return for owners of the Company and benefits for other stakeholders and to safeguard the Group's ability to continue as a going concern.

Capital represents total equity and debts. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions. The Group may maintain or adjust the capital structure by taking necessary measures including issuing new shares and raising new debt financing.

The net debt to equity ratio defined and calculated by the Group as total borrowings less cash and cash equivalents expressed as a percentage of total equity. The ratio is not presented as the Group has no net debt at 31 December 2017 and 2016.

27 Notes to the Consolidated Cash Flow Statement

27.1 Reconciliation of profit before income tax to cash generated from operations

	2017	2016
	HK$'000	*HK$'000*
Profit before income tax	**88,526**	176,122
Interest income	**(10,572)**	(3,773)
Dividend income	**(236)**	(485)
Depreciation of property, plant and equipment	**5,320**	2,114
Share-based compensation	**–**	507
Net gain on financial assets at fair value through profit or loss	**(4,424)**	(3,771)
Loss on disposal of property, plant and equipment	**–**	59
Unrealised exchange gain	**(1,981)**	–
Share of loss of an associated company	**133**	–
Operating profit before working capital changes	**76,766**	170,773
(Increase)/Decrease in inventories	**(7,491)**	13,006
Decrease in trade receivables, deposits paid, other receivables and prepayments	**34,319**	132,928
Increase/(Decrease) in trade payables, deposits received, other payables and accrued charges and provisions	**32,533**	(60,229)
Cash generated from operations	**136,127**	256,478

27.2 Analysis of cash and cash equivalents

	2017 *HK$'000*	2016 *HK$'000*
Cash and bank balances	**1,021,159**	1,006,516

28 Commitments

28.1 Licensing commitments

In the normal course of business, the Group enters into contractual licensing agreements to secure its rights to design, develop, market and distribute certain toys and family entertainment activity products for future sales. Certain licensing agreements contain financial commitments by the Group to the licensors to be fulfilled during the terms of the contracts. The amounts of financial commitments contracted but not provided for at the end of the year were payable as follows:

	2017 *HK$'000*	2016 *HK$'000*
Within one year	**43,559**	38,243
In the second to fifth years	**50,778**	106,950
	94,337	145,193

28.2 Operating lease commitments

The Group acts as lessee under operating leases for its offices. At 31 December 2017, the future aggregate minimum lease payments under non-cancellable operating leases for offices payable by the Group were as follows:

	2017 *HK$'000*	2016 *HK$'000*
Within one year	**8,188**	8,091
In the second to fifth years	**11,201**	19,335
	19,389	27,426

29 Related Party Transactions

29.1 The Group entered into the following significant transactions with related parties:

	2017	2016
	HK$'000	*HK$'000*
Rent and building management fee paid to fellow subsidiary, Belmont Limited *(Note (a))*	**6,335**	6,061
Rent and building management fee paid to fellow subsidiary, Bagnols Limited *(Note (b))*	**322**	319

Notes:

(a) This transaction constitutes a continuing connected transaction and is disclosed in the Report of the Directors under the section headed "Continuing Connected Transaction" as required by the Listing Rules. This continuing connected transaction was exempt from independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

(b) This transaction, constitutes a continuing connected transaction, was exempt from reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

29.2 No transactions have been entered with the directors of the Company (being the key management personnel) during the year other than the emoluments paid to them (being the key management personnel compensation) as disclosed in note 13.1.

30 US Dollar Equivalents

These are shown for reference only and have been arrived at based on the exchange rate of HK$7.8 to US$1 ruling at 31 December 2017.

31 Financial Risk Management and Fair Value Measurement

31.1 Categories of financial instruments

	2017 *HK$'000*	2016 *HK$'000*
Financial assets		
Loans and receivables (include cash and cash equivalents)		
Trade receivables	**169,379**	174,841
Deposits paid and other receivables	**2,436**	1,977
Cash and bank balances	**1,021,159**	1,006,516
Financial assets at fair value through profit or loss	**18,595**	23,195
	1,211,569	1,206,529
Financial liabilities at amortised cost		
Trade payables	**24,387**	16,318
Other payables and accrued charges	**91,457**	80,418
Loan from an associated company	**5,831**	5,831
	121,675	102,567

31.2 Financial risk factors

Exposure to currency risk, price risk, credit risk and liquidity risk arises in the normal course of business. The risks are minimised by the financial management policies and practices described below:

31.2.1 Currency risk

The Group is exposed to foreign currency risk primarily through sales that are denominated in a currency different from domestic currencies used to fund the operations of the relevant group companies. The currency giving rise to this risk is mainly United States dollar. The Group does not hedge its foreign currency risks, as the rate of exchange between Hong Kong dollar and the United States dollar is controlled within a tight range. Long-term changes in foreign exchange rates may have an impact on consolidated earnings.

31.2.2 Price risk

The Group is exposed to equity securities price risk arising from investments held by the Group which are classified in the consolidated statement of financial position as financial assets at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

31 Financial Risk Management and Fair Value Measurement (Continued)

31.2 Financial risk factors (Continued)

31.2.2 Price risk (Continued)

At 31 December 2017, it is estimated that a general increase/decrease of 5 per cent of global major indices, with all other variables held constant, would increase/decrease the Group's profit for the year and equity by approximately HK$930,000 (2016: HK$1,160,000).

31.2.3 Credit risk

Financial instruments held by the Group that may be subject to credit risk include cash equivalents and trade and other receivables. Cash equivalents consist principally of deposits and short-term money market funds placed with major financial institutions. These instruments are short-term in nature and bear minimal risk. To date, the Group has not experienced any losses on cash equivalents.

The Group sells its products primarily to national and regional mass-market retailers in the United States and to third party independent distributors outside the United States. Credit is extended to United States customers for domestic sales based on an evaluation of the customers' financial condition, and generally collateral is not required. The Group assigns the majority of its trade receivables to factoring and receivable agencies. The factoring and receivable processing agents would analyse the Group's customers, credit approval and collection processing of the receivables. These agreements transfer the credit risk due to a customer's inability to pay to the factoring and receivable agents so as to mitigate credit exposure of the Group. Direct shipments to customers who are located outside the United States are normally secured by letters of credit or advance payment as credit is only extended to a limited number of customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position as summarised in note 31.1 above.

Concentrations of credit risk

The Group markets a substantial portion of its products to customers in the retail industry. The Group continually evaluates the credit risk of these customers. The percentages of sales for the year attributable to the Group's major customers were:

	2017	2016
Sales		
– the largest customer	25%	37%
– five largest customers in aggregate	75%	78%

31.2.4 Liquidity risk

The Group aims to maintain prudent liquidity risk management through maintaining sufficient cash and flexibility in funding by keeping adequate credit lines available.

The analysis of the Group's contractual maturities of its financial liabilities as at the end of the reporting period below is based on the undiscounted cash flows of financial liabilities.

	2017				
	Within 1 year or on demand *HK$'000*	**Over 1 year but within 2 years** *HK$'000*	**Over 2 years but within 5 years** *HK$'000*	**Total undiscounted amount** *HK$'000*	**Carrying amount** *HK$'000*
Trade payables	**24,387**	**–**	**–**	**24,387**	**24,387**
Other payables and accrued charges	**91,457**	**–**	**–**	**91,457**	**91,457**
Loan from an associated company	**5,831**	**–**	**–**	**5,831**	**5,831**
	121,675	**–**	**–**	**121,675**	**121,675**

	2016				
	Within 1 year or on demand *HK$'000*	Over 1 year but within 2 years *HK$'000*	Over 2 years but within 5 years *HK$'000*	Total undiscounted amount *HK$'000*	Carrying amount *HK$'000*
Trade payables	16,318	–	–	16,318	16,318
Other payables and accrued charges	80,418	–	–	80,418	80,418
Loan from an associated company	5,831	–	–	5,831	5,831
	102,567	–	–	102,567	102,567

31 Financial Risk Management and Fair Value Measurement (Continued)

31.3 Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

	2017			
	Level 1 *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*	**Total** *HK$'000*
Recurring fair value measurement				
Financial assets at fair value through profit or loss:				
Listed equity investment in Hong Kong	**3,338**	**–**	**–**	**3,338**
Listed equity investment outside Hong Kong	**15,257**	**–**	**–**	**15,257**
	18,595	**–**	**–**	**18,595**

	2016			
	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Recurring fair value measurement				
Financial assets at fair value through profit or loss:				
Listed equity investment outside Hong Kong	23,195	–	–	23,195

During the years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

31.4 Financial assets and liabilities not reported at fair value

The carrying amounts of the Group's financial assets and liabilities (comprising trade receivables, deposits paid and other receivables, trade payables, other payables and accrued charges and loan from an associated company carried at amortised cost) approximate their fair values as at 31 December 2017 and 2016.

32 Company Level Statement of Financial Position

	Note	2017 *US$'000* *(Note 30)*	2017 *HK$'000*	2016 *HK$'000*
Non-current assets				
Interest in subsidiaries		**18,895**	**147,380**	147,380
Current assets				
Other receivables and prepayments		**90**	**701**	263
Amounts due from subsidiaries		**21**	**160**	128
Financial assets at fair value through profit or loss		**2,384**	**18,595**	23,195
Cash and bank balances		**46,348**	**361,515**	416,005
		48,843	**380,971**	439,591
Current liabilities				
Other payables and accrued charges		**72**	**562**	513
Amount due to subsidiaries		**1,796**	**14,008**	14,948
		1,868	**14,570**	15,461
Net current assets		**46,975**	**366,401**	424,130
Net assets		**65,870**	**513,781**	571,510
Equity				
Share capital	*26.1*	**1,533**	**11,958**	12,144
Reserves	*26.2*	**64,337**	**501,823**	559,366
Total equity		**65,870**	**513,781**	571,510

On behalf of the board

CHENG Bing Kin, Alain
Director

TO Shu Sing, Sidney
Director